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Policy Paper For the President's National Security Advisor

Policy Implications: Sale of F-16s To Taiwan

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By Robert L. Pelletier

On September 2, 1992, President Bush announced his Administration's proposal to sell up to 150 F-16 fighters to Taiwan. Although the proposed sale was generally viewed as a means to win votes in the President's home state of Texas, the Congress eventually approved the sale. This Administration is now faced with the domestic and foreign policy implications of that decision.

Domestically, the sale equates to jobs in the struggling aircraft industry, export sales to help lessen the U.S. trade deficit, and a means to maintain U.S. military aircraft production without U.S. defense expenditures. Although the sale's domestic consequences are resoundingly positive, it raises key questions for U.S./China relations and Asian political stability. Specifically, does the sale abrogate long standing agreements with the Chinese on arms sales to Taiwan? Will it adversely impact U.S./China trade relations? Does it up the ante on an arms race between China and Taiwan and destabilize the region? Does the sale threaten U.S. initiatives to stop China's sale of ballistic missiles and other weapons to Third World countries? This paper examines these issues and recommends actions that best serve U.S. domestic and foreign policy interests.

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Domestically, It's A Win/Win Situation

The United States is faced with a dilemma. It must cut defense spending to rectify its large budget imbalance, yet the U.S. must maintain the means to arm and support adequately its forces, if it is to remain the dominant military and global power.

Total defense spending is expected to decline from a peak of 6.4 percent of Gross National Product in 1985 to less than 3.8 percent in 1996. Military procurements are projected to decline almost 50 percent during this period. The U.S. military aircraft industry has been hit especially hard by the decline. The General Dynamics Corporation, manufacturer of the F-16, built 300 aircraft during peak production years, but now produces only 72 aircraft with considerably fewer employees. Moreover, it relies more on foreign military sales (about 40 percent of total sales) to keep open its F-16 fighter aircraft production line. General Dynamics' fighter aircraft production is projected to decrease further because the fiscal year 1993 Defense Appropriations Act provides for the purchase of only 24 F-16s. Moreover, foreign markets for military aircraft have become less numerous and more competitive since the Soviet Union's demise.

The F-16 fighter force is relatively new because of Air Force downsizing and the retirement of older F-16s. Other than to maintain this segment of our military industrial base, there is little rationale for continued U.S. procurement of F-16 aircraft. The sale of F-16s to Taiwan helps us to maintain that

industrial capability, which can be used to respond to national emergencies, without the need for U.S. defense expenditures. Moreover, the income generated by the sale benefits the United States and General Dynamics and its subcontractors by (1) maintaining American jobs and expertise in critical technologies, (2) supporting research and development efforts in the aerospace industry to maintain American competitiveness abroad, and (3) reducing our large trade imbalance. Hence, the sale generates significant domestic benefits.

U.S./China Relations:

A Delicate Balance On The Taiwan Defense Issue

From 1972 through the late 1980s, China was regarded as an essential geostrategic counterbalance to the Soviet Union. Because of China's geostrategic importance, the United States has accommodated it relative to Taiwan, yet has remained committed to Taiwan's defense and the peaceful settlement of the China/Taiwan unification. The recent announced sale of F-16s to Taiwan is the most recent example of friction between the U.S. and China on the arms to Taiwan issue.

In a communique signed by President Nixon during his historic visit to China in February 1972, the U.S. acknowledged that there is one China and Taiwan is a part of China. However, it reaffirmed its interest in Taiwan's defense and the peaceful settlement of the Taiwan unification question by the Chinese. China's position was that Taiwan is a province of China and its

liberation is China's internal affair in which no other country has the right to interfere.

In 1979, after several years of increased economic and cultural exchanges with China, the United States severed diplomatic relations with Taiwan as a condition for establishing full diplomatic relations with China. The U.S. agreed to withdraw all remaining military forces from and limit future arms sales to Taiwan. Although China wanted a stronger commitment from the U.S. on the end of future arms sales to Taiwan, it did not receive that commitment. However, China also did not commit to a peaceful resolution of the unification issue.

The concessions upset conservatives in Congress who pushed through the Taiwan Relations Act of 1979. The act specified that continued U.S. recognition of China was based on a peaceful future for Taiwan, use of force or coercion against Taiwan would be "of grave concern" to the U.S., and the U.S. would continue to provide defensive weapons to Taiwan to ensure its self-defense capabilities. China's leaders denounced the act, but agreed not to retaliate after President Carter assured them that he had "substantial discretion in interpreting and implementing the law."

U.S. arms sales to Taiwan continued to plague the relationship in the early 1980s. China became especially concerned in December 1981 when the Reagan Administration announced the sale of about \$100 million in spare parts to Taiwan. China protested and requested that the U.S. clarify its

position on arms sales to Taiwan. Negotiations ensued and culminated in the August 17, 1982, joint communique. In the communique the U.S. stated that "it does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends to reduce gradually its sales of arms to Taiwan, leading over a period of time to final resolution."

The Chinese protested the recent F-16 sale as a violation of U.S./China agreements reached in 1972 and 1979 and, specifically in 1982. The Bush Administration countered that the sale does not violate the three existing bilateral communiques with China, including the 1982 accord that specifically addresses security assistance to Taiwan. The Administration stated that the 1982 communique allows for a one-for-one replacement of Taiwan's aircraft with the lowest technology available, which equates to F-16A/B aircraft.

Over the years the U.S. has remained firm in its commitment to the peaceful settlement of the Taiwan unification issue. As part of that commitment, the U.S. has continued to support Taiwan's defense and right to self-determination. Although the U.S. pledged to reduce gradually arms sales to Taiwan and limit the technology transferred, it placed no time limit on the end of those sales nor did it specifically define the technological

baseline against which future sales would be measured.

Therefore, I believe the sale does not abrogate prior U.S./China agreements.

U.S./China Relations:

A Current Perspective

Although the Soviet Union's disintegration has changed the importance of the "China card," a strategy that has dominated U.S./China relations since 1972, China's evolving economic and military power and potential influence in Asia requires that we carefully manage our relations with this awakening giant.

Trade and Investment

China accused the U.S. of interfering in its internal affairs and creating regional tension by selling the F-16s to Taiwan. It also said that the U.S. would be "fully responsible...for the deterioration of Sino-U.S. relations." Despite the rhetoric and warnings, China has done little to retaliate for the sale. This may be due primarily to our trade and investment links, which have strengthened since we granted China most-favored-nation status in 1980.

Today, China enjoys a favorable trade balance with the U.S., that grew to about \$18 billion in 1992. American companies have invested about \$5 billion in 2,300 projects in China and there are more than 1,700 joint ventures. More than 500 American companies and banks have offices in China. U.S. investment and technology is very much in demand. China will think long and hard before upsetting this relationship.

President Bush effectively used the carrot and stick approach in U.S./China relations. He threatened to impose penalties on China's imports to gain concessions on human rights and other issues, but successfully blocked Congressional action to impose conditions on China's most-favored-nation status. He upset China with the sale of F-16s to Taiwan, but mitigated hostility shortly thereafter by approving the sale of U.S. satellites and components to China. This strategy appears to have worked well to keep China engaged in bilateral negotiations and extract important concessions.

Military Power

China is engaged in a long-term modernization program for its large military forces and has spent more than \$2 billion since June 1989 to modernize those forces. In 1992 it completed plans to acquire from Russia 72 Su-27 Flanker fighters, 24 MiG-31 Foxhound strategic interceptors, a facility to produce about 200 MiG-31s, several maritime strike helicopters, and SA-10 anti-missile systems. It is negotiating with Russia for the transfer of modern military technologies. China's military buildup threatens stability in that region; especially since it agreed to base its newly acquired aircraft away from the Russian border on islands in the South China Sea.

The F-16s provide Taiwan with defensive military capabilities and a hedge against aggression. Because of the small size of Taiwan's military forces vis-a-vis China's forces, the F-16 sale cannot possibly be viewed as a threat by China and

destabilizing to the area. It could be a stabilizing factor, however, if Taiwan's forces were part of a multilateral defense arrangement for the area.

Arms Proliferation

The U.S. has continued to press China on the sale of nuclear and ballistic missile technology to Third World countries. In 1992 China agreed to adhere to the guidelines and parameters of the Missile Technology Control Regime and signed the Nuclear Non-Proliferation Treaty. Although these were steps in the right direction, China's subsequent actions raise concerns about its commitment to the agreements. For example, during Iranian President Rafsanjani's visit to China in September 1992, China announced an agreement to sell a nuclear power reactor to Iran. Later in the year, U.S. intelligence raised concerns that China might be selling M-11 missiles to Pakistan.

After the President announced the F-16 sale, China stopped participating in the arms limitation talks, which had been conducted by the U.S., Britain, China, France, and Russia to limit arms sales to the Middle East. According to Bush Administration officials, the Chinese were only in the talks "for fear of embarrassment at being outside." Moreover, China had "been the biggest obstacle...to any progress and have been looking for any pretext to leave." Thus, it appears that the sale had little impact on China's arms sales policies.

Conclusions

The F-16 sale to Taiwan has obvious domestic benefits. It also demonstrates a continued U.S. commitment to Taiwan's defense and right to self-determination. Although the sale bruised China's national pride, it appears to have had little measurable impact on U.S./China relations or regional stability.

The focus of U.S./China relations has shifted with the Soviet Union's demise and the growth in China's economic and military power. Moreover, China's Tiananmen Square massacre, continued arms sales, and large trade surplus with the U.S. undercut China's leverage with the United States. Furthermore, Taiwan has been and will continue to be a sensitive issue in our relationship.

Recommendations

The United States must:

- Make it clear to China and Taiwan that the unification issue must be resolved by peaceful means and that the U.S. will not support aggression by either side.
- Continue to articulate to China our position on Taiwan's right to defend itself from aggression and peacefully determine its own future. Our future weapons sales to Taiwan should be consistent with our position (i.e., weapons must be defensive in nature) and U.S./China communiques.
- Continue to engage China on weapons proliferation and other critical issues and use the threat of U.S. trade and investment restrictions to extract concessions. However,

this should be a carefully measured approach so as not to overreact and risk the possibility of severing relations. A China isolated from the U.S. would not be in our national interest.

- Strive to improve U.S./China military relations and exchanges to provide an additional forum for discussing issues of mutual interest and concern.
- Maintain a forward-deployed military presence in the region as a hedge against near-term Chinese military aggression. For the longer term, the U.S. must encourage and contribute to the development of a regional collective security structure such as the Conference on Security and Cooperation in Europe. Multilateral security arrangements such as those proposed by the President of South Korea and members of the Asia Pacific Economic Conference need to be fully explore and, if promising, encouraged.

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